

EAST ZION SPECIAL SERVICE DISTRICT

A COMPONENT UNIT OF KANE COUNTY

FINANCIAL STATEMENTS

(UNAUDITED)

DECEMBER 31, 2005

WITH REPORT OF

CERTIFIED PUBLIC ACCOUNTANTS



KEMP BURDICK

KEMP BURDICK HINTON & HALL L.C.

CPA'S & ADVISORS

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CPA'S & ADVISORS

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Independent Accountants' Report

Executive Director and Members of the Board
East Zion Special Service District
Mt. Carmel, Utah 84755

We have compiled the accompanying financial statements of the business activities of East Zion Special Service District, a component unit of Kane County as of and for the year ended December 31, 2005, which collectively comprise the District's financial statements as listed in the table of contents, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of the East Zion Special Service District.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Kemp, Burdick, Hinton & Hall L.C.

Kemp, Burdick, Hinton & Hall L.C.
July 10, 2006

**EAST ZION SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF KANE COUNTY)
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2005**

As management of the East Zion Special Service District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2005. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- Total assets exceed total liabilities (net assets) by \$136,163 at the close of the fiscal year.
- Total net assets increased by \$12,262.
- Total revenues from all sources were \$110,087.
- The total cost of all District programs was \$74,183.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The three components of the financial statements are: (1) Government-wide financial statements which include the Statement of Net Assets and the Statement of Activities. These statements provide information about the activities of the District as a whole. (2) Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. (3) Notes to the financial statements.

Reporting the District as a Whole

The Statement of Net Assets and the Statement of Activities (Government-wide)

A frequently asked question regarding the District's financial health is whether the year's activities contributed positively to the overall financial well-being. The Statement of Net Assets and the Statement of Activities report information about the District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net assets and changes in them. Net assets, the difference between assets and liabilities, are one way to measure the District's financial health, or financial position. Over time, increases or decreases in net assets are an indicator of whether the financial health is improving or deteriorating. However, it is important to consider other non-financial factors such as changes in the District's property tax base or jurisdiction, the availability of capital projects, and condition of the District's assets to accurately assess the overall health of the District.

The Statement of Net Assets and the Statement of Activities, present information about the following:

- Government activities – The District currently does not maintain any governmental activities, all activities are accounted for as proprietary activities.
- Proprietary activities/Business type activities – All of the District's services are considered to be proprietary activities, including water, sewer, health and fire protection and recreation. Charges for services and miscellaneous grant and other revenues finance all of the cost of the services provided.

**EAST ZION SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF KANE COUNTY)
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
December 31, 2005**

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds—not the District as a whole. The District's major fund uses the accounting approaches as explained below.

- **Governmental funds** – The District currently does not maintain any governmental activities, all activities are accounted for as proprietary activities.
- **Proprietary funds** – When the District charges customers for the services it provides, these services are reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of the District's financial position. The District's combined assets exceed liabilities by \$136,163 as of December 31, 2005 as shown in the Statement of Net Assets within the financial statements.

Business Type Activities

The cost of providing all proprietary (business type) activities this year was \$74,183. As shown in the statement of Changes in Net Assets, \$110,087 of this cost was paid for by those who directly benefited from the programs. Grant revenues and investment earnings totaled \$134.

The District's programs include: water, sewer and fire protection. The Net Assets increased by \$12,262.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The capital assets of the District are those assets that are used in performance of District functions including infrastructure assets. Capital Assets include equipment, buildings, land, and park facilities. At the end of fiscal year, net capital assets of the District's activities totaled \$757,964. Depreciation on capital assets is recognized in the Government-Wide financial statements. (See note 3 to the financial statements.)

Debt

At year-end, the District had \$646,000 in long-term debt. During the current fiscal year, the District's total debt decreased by \$45,000. (See note 4 to the financial statements for detailed descriptions.)

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

In considering the District Budget for fiscal year 2006, the District Board and management were cautious as to the growth of revenues and expenditures. Overall operating expenditures were budgeted so as to contain costs at the same level as fiscal year. There are no large capital projects anticipated for FY 2006.

**EAST ZION SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF KANE COUNTY)
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
December 31, 2005**

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Lynette Spencer, Treasurer, P.O. Box 5547, Mt. Carmel, Utah 84755.

EAST ZION SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF KANE COUNTY)
STATEMENT OF NET ASSETS
Proprietary Fund
December 31, 2005

	Year Ended December 31, 2005	(Memorandum Only) Year Ended December 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 49,598	\$ 23,252
Accounts receivable, net of \$0 allowance	2,275	9,825
Total current assets	51,873	33,077
Noncurrent assets:		
Bond issue costs and other intangible assets	25,711	25,711
Less: accumulated amortization	(5,970)	(4,256)
Capital assets:		
Fire equipment	111,164	111,164
Equipment	81,408	99,964
Furniture and fixtures	12,890	12,890
Buildings	19,086	19,086
Water system	627,251	627,251
Less: accumulated depreciation	(93,835)	(62,691)
Total noncurrent assets	777,705	829,119
Total assets	\$ 829,578	\$ 862,196
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 390	\$ 276
Notes payable	1,025	1,019
Total current liabilities	1,415	1,295
Noncurrent liabilities:		
Due within one year	46,000	45,000
Due in more than one year	646,000	692,000
Total noncurrent liabilities	692,000	737,000
Total liabilities	693,415	738,295
NET ASSETS		
Invested in capital assets, net of related debt	85,705	92,119
Unrestricted net assets	50,458	31,782
Total net assets	\$ 136,163	\$ 123,901

See accompanying notes and accountants' report.

EAST ZION SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF KANE COUNTY)
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Proprietary Fund
For the Year Ended December 31, 2005

	Year Ended December 31, 2005	(Memorandum Only) Year Ended December 31, 2004
OPERATING REVENUES		
Charges for services	\$ 110,087	\$ 131,536
Total operating revenues	<u>110,087</u>	<u>131,536</u>
OPERATING EXPENSES		
Automobile Expense	20	-
Bank charges	-	12,250
Contract labor	160	-
Depreciation and amortization expense	37,538	34,306
Dues and Subscriptions	230	130
Insurance expense	363	400
Legal & professional fees	8,118	9,034
Licenses & fees	156	180
Miscellaneous expense	(10)	181
Office expense	248	11,046
Outside services	150	110
Professional Fees:Accounting	2,600	560
Repairs & maintenance	3,788	4,771
Supplies	-	120
Training	1,150	-
Travel & meals expense	100	799
Utilities	19,572	26,340
Total operating expenses	<u>74,183</u>	<u>100,227</u>
Operating income (loss)	<u>35,904</u>	<u>31,309</u>
NONOPERATING REVENUE (EXPENSES)		
Grant revenues	-	112,843
Donations in kind	-	15,000
Gain on sale of assets	4,266	-
Interest expense	(28,042)	(29,226)
Interest income	134	98
Total nonoperating revenue (expenses)	<u>(23,642)</u>	<u>98,715</u>
Change in net assets	12,262	130,024
Total net assets--beginning	<u>123,901</u>	<u>(6,123)</u>
Total net assets--ending	<u>\$ 136,163</u>	<u>\$ 123,901</u>

See accompanying notes and accountants' report.

**EAST ZION SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF KANE COUNTY)
STATEMENT OF CASH FLOWS
Proprietary Fund
For the Year Ended December 31, 2005**

	Year Ended December 31, 2005	(Memorandum Only) Year Ended December 31, 2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 117,637	\$ 134,842
Cash paid to suppliers	(36,525)	(66,153)
Net cash from operating activities	81,112	68,689
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Grant revenue	-	112,843
Purchase of property and equipment	(858)	(98,063)
Sale of property and equipment	19,000	-
Payment on short-term debt	-	-
Payment on long-term debt	(45,000)	(44,000)
Interest expense	(28,042)	(29,226)
Net cash from capital and related financing activities	(54,900)	(58,446)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest revenue	133	98
Net cash from investing activities	133	98
Net increase in cash and cash equivalents	26,345	10,341
Cash balance--beginning of the year	23,252	12,911
Cash balance--end of the year	\$ 49,597	\$ 23,252
Reconciliation of net operating income to net cash from operating activities:		
Operating income	\$ 35,904	\$ 31,309
Adjustments to reconcile net operating income to net cash used by operating activities:		
Depreciation/Amortization	37,538	34,306
(Increase) decrease in:		
Accounts receivable	7,550	3,306
Increase (decrease) in:		
Accounts payable	120	(232)
Net cash provided by operating activities	\$ 81,112	\$ 68,689

See accompanying notes and accountants' report.

**EAST ZION SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF KANE COUNTY)
NOTES TO FINANCIAL STATEMENTS
December 31, 2005**

NOTE 1. Summary of Significant Accounting Policies

NATURE OF ORGANIZATION

East Zion Special Service District, (the Service District) is a component unit of Kane County, Utah. The Service District was established by resolution of the Board of County Commissioners of Kane County on July 23, 2002, pursuant to the provisions of Chapter 23, of Title 11, Utah Code Annotated, 1953, to provide water, sewer and fire protection services to the territory which includes the unincorporated areas of Zion Ponderosa Resort and surrounding residences. One member of the Control Board of the Service District is appointed by the Kane County Commissioners, and the special service district community appoints an additional three members. There are no other agencies or component units that should be associated with these financial statements.

BASIS OF PRESENTATION-FUND ACCOUNTING

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The District's only fund is an enterprise fund.

BASIS OF ACCOUNTING

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. However, the only fund of the District is an enterprise fund. The accrual basis of accounting is generally followed as revenues are from services which are susceptible to accrual and expenditures are recorded when the liability is incurred. The District applies all applicable GASB pronouncements as well as FASB pronouncements issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. The District also recognizes as operating revenue the portion of fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

**EAST ZION SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF KANE COUNTY)
NOTES TO FINANCIAL STATEMENTS
December 31, 2005**

NOTE 1. Summary of Significant Accounting Policies, Continued

BUDGET POLICY AND PROCESS

The annual budget was adopted by the District prior to fiscal year. The operating budget includes proposed expenses and the proposed source of revenue for such expenses. The budget was prepared using the accrual basis of accounting.

During the current fiscal year there were no amendments to the budget.

ENCUMBRANCES

Encumbrance accounting is not used.

CASH AND CASH EQUIVALENTS

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

INVENTORIES

Inventories consisting of supplies for fire protection and materials used in the extension and repair of the districts water and sewer systems, are deemed immaterial and have been expensed as purchased.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

NET ASSETS

Net assets are the difference between assets and liabilities. Net assets invested in capital assets, net of related debt are capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by District legislation or external restrictions by other governments, creditors or grantors. All net assets are unrestricted.

**EAST ZION SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF KANE COUNTY)
NOTES TO FINANCIAL STATEMENTS
December 31, 2005**

Note 2. Cash Equivalents and Investments

Cash - At December 31, 2005, the carrying amount of the District's deposits was \$49,598 and the bank balance was \$47,854.66. Of the bank balance all was covered by federal depository insurance. Deposits are not collateralized nor are they required to be by state statute. All cash at December 31, 2005 was deposited in bank checking and savings accounts.

Investments - The District follows the requirements of the Utah Money Management Act (Utah Code Annotated 1953, Section 51, Chapter 7) in handling its depository and temporary investment transactions. This law requires the depositing of District funds in a "qualified depository". The Act defines a "qualified depository" as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

The Money Management Act also defines the types of securities allowed as appropriate temporary investments for the District and the conditions for making investment transactions. Investment transactions are to be conducted through qualified depositories or primary reporting dealers.

There were no investments held by the District during fiscal year 2005.

EAST ZION SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF KANE COUNTY)
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

Note 3. Capital Assets and Depreciation

All capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Depreciation has been provided over the estimated useful lives of the assets using the straight-line method as follows:

	<u>Useful Life</u>
Fire equipment	5-10 years
Equipment	5 years
Office Furniture & Equipment	3-15 years
Buildings	7-20 Years
Water system	15-40 years

Capital asset activity for the year ended December 31, 2005 was as follows:

	<u>Balance</u> <u>12/31/2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2005</u>
Capital assets being depreciated:				
Fire equipment	\$ 111,164	\$ -	\$ -	\$ 111,164
Equipment	99,964	858	19,423	81,399
Furniture & fixtures	12,890	-	-	12,890
Buildings	19,086	-	-	19,086
Water system	627,251	-	-	627,251
A/D - Fire equipment	(15,357)	(15,799)	5,010	(26,146)
A/D - Equipment	(5,778)	(2,667)	-	(8,445)
A/D - Furniture & fixtures	(3,554)	(1,532)	-	(5,086)
A/D - Buildings	(1,011)	(467)	-	(1,478)
A/D - Water System	(36,991)	(15,681)	-	(52,672)
Total capital assets being depreciated, net	<u>\$ 807,664</u>	<u>\$ (35,288)</u>	<u>\$ 24,433</u>	<u>\$ 757,963</u>

EAST ZION SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF KANE COUNTY)
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

Note 4. Long-term debt

Following is a summary of long-term debt for the year ended December 31, 2005:

Special Assessment Bonds

General Obligation Special Assessment Bonds, series 2002, payable to Zion's Finance, bearing interest at the coupon rate, ranging from 2.23% to 4.39%. The principal and interest is approximately \$73,000 per year. The bond matures December 15, 2017. The principal balance December 31, 2005 is \$692,000.

A schedule of changes in long-term debt is as follows:

	<u>Balance</u> <u>12/31/2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>12/31/2005</u>
Special Assessment Bonds	\$ 737,000	\$ -	\$ 45,000	\$ 692,000

The annual debt service requirements to amortize debt outstanding at December 31, 2005 are as follows:

<u>Year ended</u> <u>December 31,</u>	<u>G.O. Bond</u> <u>Principal</u>	<u>G.O. Bond</u> <u>Interest</u>	<u>Total</u>
2006	46,000	26,638	72,638
2007	48,000	25,051	73,051
2008	50,000	23,285	73,285
2009	52,000	21,355	73,355
2010	54,000	19,254	73,254
2011-2015	304,000	61,028	365,028
2016-2017	<u>138,000</u>	<u>7,654</u>	<u>145,654</u>
Total	<u>\$692,000</u>	<u>\$184,265</u>	<u>\$876,265</u>